



TESTIMONY OF THE MICHIGAN INSURANCE COALITION
Before the House Insurance Committee
March 19, 2009

Good morning Madam Chair and members of the Committee. My name is Teri Morante. I am Assistant Vice President for Regulatory and Government Affairs for Citizens Insurance Company of America, but I am here today representing the Michigan Insurance Coalition.

There's a belief held by many that the Michigan Catastrophic Claims Association is a group of insurance companies, accountable to no one, that conspires in "secret" meetings to set the price charged consumers in return for payment of catastrophic claims. Part of that belief is true. The MCCA is an association of insurance companies run by a board made up of insurance companies. While I think referring to their meetings as "secret" is inflammatory, it is true that the meetings of this board are private.

This is because the MCCA is a private, non-profit association that operates as a reinsurer for every insurer providing auto insurance in Michigan. The Legislature authorized Michigan insurers to form this "reinsurance pool" because traditional reinsurers would not provide coverage for unlimited benefits. Because it's a private association, its meetings are held in private. This is no different than Board meetings of the individual insurance companies that are members of the MCCA, or of any other private business for that matter.

What is different about the MCCA Board is that the Commissioner of Insurance serves as an ex-officio member of the board. In that capacity, he participates in discussions and has access to all of the information available to other board members. In addition, an independent audit of the MCCA is conducted each year and is submitted to the Commissioner, as is an annual financial statement. This is the same financial statement that is submitted by individual insurers.

As far as being accountable to no one, this is certainly not true. The MCCA Board is accountable to its members – that is, the insurers who write

auto insurance in Michigan. This accountability is crucial in that the MCCA is the pillar that supports our mandatory, lifetime, unlimited medical benefits provided under our no-fault system.

The belief that the MCCA charges consumers in order to pay for their catastrophic claims is absolutely false.

The MCCA does not and cannot charge individual policyholders. The MCCA does not and cannot pay claims to individuals.

The MCCA exists to protect insurers from the severe financial burden of providing the unlimited benefits mandated by law. As a reinsurer, it provides insurance for insurance companies. It does not have direct contact with policyholders – individual insurers accept, adjust and pay all claims. Once a claim reaches a certain threshold, the insurer submits its expenses to the MCCA for reimbursement. In return for this reinsurance, the MCCA charges insurers a premium that is set each year.

The premiums assessed to insurers are determined based on the recommendations of two independent actuarial firms that assess the number of claims, the severity of claims, and the expected costs of providing lifetime benefits to catastrophically injured individuals. This is a complex and difficult task due to the open-ended nature of the benefit, and the difficulty in predicting investment income and the increased cost of health care and rehabilitation services over a long period of time. Some of these claims have expected durations of 40 to 50 years, or more.

It's important to remember that this reinsurer is funded by the companies for which it provides the reinsurance. This means that insurers themselves – and their individual surplus – provide the security for the catastrophic claims liabilities. In other words, if the MCCA went away today, the full amount of these claims would be the responsibility of the insurers.

Because of this, rating agencies, that evaluate the financial strength of insurers, pay very close attention to any regulatory or legislative activity involving the MCCA. These agencies evaluate the reinsurance recoveries due to insurers in determining the rating they will be assigned. If they become concerned that the strength or reliability of the MCCA might be altered by political motivations, they will downgrade the ratings of the MCCA insurer members.

And this is not just a theory. In the late 1990s, under strong political pressure, the MCCA Board voted to return, in one lump sum, an estimated surplus that had been accumulated over a period of years. As in many years,

there were also proposals to add public members and subject the MCCA to government "sunshine" laws. A.M. Best was concerned enough to contact the Insurance Bureau to get details and voice their strong concerns about whether they could rely on the security provided by the MCCA in their evaluation of companies.

A lower rating from A.M. Best translates into diminished sales, and not just in auto insurance. Many businesses will not purchase insurance from a company that doesn't have a high rating. Insurers that write umbrella coverage over auto and home insurance generally require the underlying coverage to be written in a company with a high rating. This causes agents to hesitate to place business with those companies. And those most heavily invested in Michigan – domestic insurers – will be hurt the most.

House Bills 4427 and 4471 would impose the provisions of the Freedom of Information Act and the Open Meetings Act on the MCCA and require an annual independent audit. The Michigan Insurance Coalition strongly believes it is irresponsible to suggest that the MCCA be treated like a government agency, subject to "sunshine" laws designed to permit the public to view and participate in the deliberations of "public bodies." Again, the MCCA is a private association, not a state agency. And, as I explained earlier, it is critical to the financial well-being of Michigan insurers. Unless the state of Michigan is willing to back these claims liabilities, there is no basis for public involvement with the MCCA.

House Bill 4427 also requires an independent audit of the MCCA. As I indicated earlier, the MCCA is already subject to an annual independent audit, which is available to the Commissioner. The Commissioner also conducts his own audit of the MCCA on a regular basis. The findings and recommendations of the most recent audit were not critical and, in fact, recommended a continuation of the plans already put in place by the Board.

We would ask that you give more weight to the risks these bills present to the insurance industry than the political appeal they may have. In these challenging economic times, the insurance industry remains stable. While other sectors have seen significant hardship, the insurance market is continuing to function in a normal fashion, protecting Michigan individuals and businesses and providing Michigan residents with stable, well-paying jobs. We believe that the citizens of Michigan would appreciate your thoughtfulness in protecting a vital segment of our economy.

That's not to say we're dismissing concerns about the cost of the MCCA. As we indicated when we met with you, Madam Chair, and the Speaker, we are more than willing to have an open discussion and work on positive solutions to

the rising costs of auto insurance. Proposals to address the costs of the unlimited medical and rehabilitation benefits, such as the elimination of fraud and waste in the system and placing reasonable limitations on the extent of our unlimited system, will go a long way toward achieving this goal. Removing costs from the system will serve to reduce both the cost of providing the primary insurance as well as the reinsurance provided by the MCCA, which would ultimately benefit consumers in the form of lower premiums.

Thank you.